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**Statement by Dean Sonnenberg
On behalf of the National Sunflower Association**

**Before a Hearing of the
Subcommittee on General Farm Commodities and Risk Management
Agriculture Committee
U.S. House of Representatives**

December 14, 2005

Mr. Chairman and Members of the Subcommittee, thank you for the invitation to testify today about the procedures the USDA's Farm Service Agency (FSA) uses to establish Posted County Prices (PCPs) for commodities. I am President of the National Sunflower Association (NSA) and am testifying today on behalf of the Association. I am a producer from Fleming, Colorado, where we grow sunflowers, corn, wheat and millet on our farm.

The safety-net provided for sunflowers by the 2002 Farm Bill, as with the other oilseeds, relies primarily on the Marketing Loan Program. The Direct Payment rate for sunflowers is nominal, and the Counter-Cyclical Payment rate is virtually nonexistent. The NSA is happy to report that until this fall, oil sunflower prices – the basis upon which both confection and oil sunflower Loan Deficiency Payments (LDPs) are determined – had been above the loan level. Virtually no sunflower LDP activity took place from 2002 through 2004, and this did contribute to the savings that have been posted by the 2002 Farm Bill relative to the original Congressional Budget Office score when Congress passed the legislation. Because of these higher prices, NSA did not have reason – until this year – to review the effectiveness of either the terminal market locations or the freight differentials to each county that is used to determine the sunflower PCPs.

However, this past harvest, record yields coupled with a significant increase in sunflower acreage did cause oil sunflower cash prices to decline significantly from those seen in 2004. Conversely, the extremely high diesel fuel prices that we saw this fall caused freight rates to skyrocket. Combined, these two factors did drive the price of oil sunflowers below loan levels in many local markets.

The sunflower PCPs did not initially track the market decline and producers notified the NSA about the growing spread between the PCPs and their local markets. NSA contacted the FSA about the divergence. I would like to take this opportunity to personally thank the FSA for acting swiftly to bring the sunflower PCPs and local market prices back into synch. It's not very often that a government agency moves at such speed and I must say that I was impressed. I understand, and this may be clarified today, that the freight differential to local markets was adjusted by removing a single dominant market that was replaced with a combination of two or three regional market points in order to refine the calculation that determines the local PCPs.

The NSA believes that the higher and more volatile diesel fuel prices seen this fall played a major role in causing the divergence of the sunflower PCPs and the local market price. We also believe that this climate of high energy prices will unfortunately stay with us for some time to come. As a result, the railroads have already devised a baseline energy index formula to reflect moving fuel costs that are then added as a surcharge (and hopefully a discount when warranted) to a base freight rate. For instance, reports of surcharges topping \$500 per rail car over and above the posted freight rate were not uncommon during this past harvest.

Although sunflowers are moved primarily by truck, the higher rail rates dictate all freight rates. With the dynamics of today's energy markets, perhaps the PCPs need to include a similar formula to reflect moving fuel costs. And since surcharges vary by region, such a system would likely be needed to be implemented regionally.

Another factor magnifying the effect rapidly fluctuating freight rates have on the difficulty of establishing accurate PCPs is the changing dynamics of the sunflower market itself. Fewer country deliver points for sunflowers and other specialty crops due to the establishment of 110-car Shuttle train loading points have caused producers to become more involved with direct contracting. And with fewer delivery points today versus 4 years ago, the distance to market has grown considerably, making the freight component of marketing more important than in previous years.

In closing, I want to again thank the Subcommittee for the opportunity to testify on the PCP issue. I would also offer the services of the National Sunflower Association should you need further information on this issue. I will be happy to address any questions you may have.



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